Accounting Review

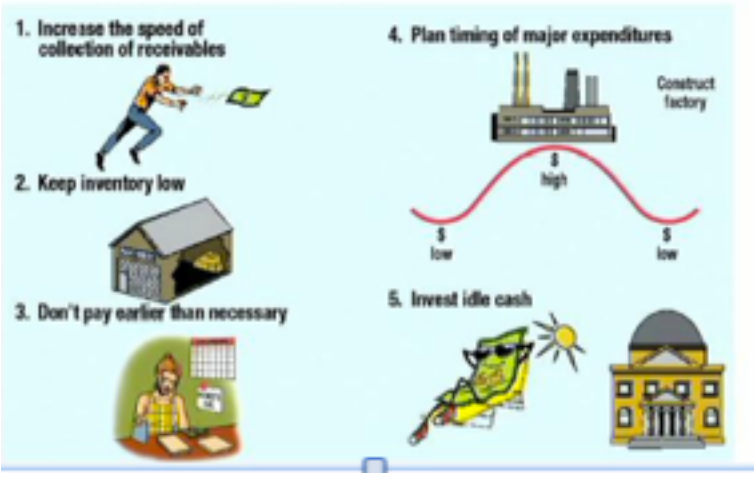
Table of Contents

Week 1: Theoretical Frameworks

- Corporate governance is a system of internal procedures framing a company's overall direction by prioritising shareholder interests and CSR.
- Theories
    - Agency theory, relationship between principals and agents, the separation of ownership and control, with conflicting goals of personal wealth maximisation that cause detriment to eachother.
        - Control is exercised through shareholder activism, stock market disciplines management.
    - Transaction cost theory, managers determine the allocation of resources and not market, such as by vertically integrating all elements of production in order to maximise profit.
        - Two assumptions are bounded rationality and opportunism, which mean that the rationality of decisions made by individuals is bound by their information and time available.
        - Control is by shareholders.
    - Both transaction and agency attempt to persuade managers to follow company interests as opposed to self-interest.
    - Stakeholder theory, firms have corporate accountability to stakeholders as they affect society in a much larger way that just shareholders.
        - This can coincide with profit maximisation, such as how LUSH is elevated due to its CSR, and how BP was chastised due to its damage to the environment in Deepwater Horizon (2010). Thus, agency theory and stakeholder theory can coincide.
    - Enlightened shareholder approach prioritises shareholders above all, but recognises the role of stakeholders, whereas the stakeholder-inclusive approach considers stakeholder interest and not merely shareholders.
    - Institutional theory, compliance with laws are superficial and do not go to the root of companies, but just stay at the surface.

Week 2: AIS, Internal Control measures, Cash management and Bank Recs.

- Two aspects of internal control are administrative and accounting controls, which intend to safeguard assets and enhance completeness and accuracy of accounting records.
- Principles of IC are:
    - Establishment of responsibility, assignment of responsibility to supervisors.
    - Segregation of duties
        - Related activities should be assigned to different individuals.
    - Documentation procedures
        - Provide evidence that transaction and events occur.
    - Physical, mechanical and electronic controls
        - Safes for assets and mechanical and electrical controls for records.
    - Independent internal verification
        - Procedures, internal audits and shift rotations.
- Basic Principles of Cash Management



- Bank contributes significantly to good internal control by:
    - Minimising the amount cash kept on hand.
    - Providing a double record of all bank transactions
    - Helping a company safeguard its cash by using a bank as a depository and clearinghouse for cheques received and written.
- In reconciling the bank account there is often a discrepancy between the organisation's and bank's statement. This is due to both:
    - Timing differences
        - A cheque that is drawn from the payer to the payee is an unpresented cheque.
        - Business deposits that do not yet appear on bank records are outstanding deposits, such as if you deposit money at night, it will not be there til morning.
    - Error, transposition errors.

Bank Reconciliation

Cash Balance as per Bank Statement	$X (CR)
Add: Outstanding deposits	
Less: Unpresented Cheques	
Add/ Less: Bank Errors	
Adjusted Cash Balance as per Bank Statement	$Y (CR)
Cash Balance as per Cash At Bank Account	$Z (DR)
Add: Notes collected	
Less: Dishonoured Cheques	
Add: Bank interest	
Less: Bank Charges	
Add/ Less: Errors	
Adjusted balance as per Cash At Bank Account	$Y (DR)

Cash Management

- Cash management is best achieved through:
  - Increasing speed of collection of receivables
  - Keeping inventory low
  - Not paying earlier than is necessary
  - Planning timing of major expenses
  - Invest idle cash